

The Conference Board
845 Third Avenue
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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

October, 1983



The Conference Board Survey of Financial Indicators

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Introductory Note: This is the fifteenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

Since the last (April, 1983) survey, the rates of real growth of the U.S. economy in the second and third quarters of 1983 have confirmed the panel's judgment that a solid recovery is under way, despite the continuation of what seem to be unusually high real interest rates.

This fifteenth semiannual survey of Financial Indicators and Corporate Financing Plans was made during a period in which the economic statistics were suggesting a sharp decline in the strength of the business recovery. However, the 35 senior financial executives who participated in this survey see the recovery continuing at a sustainable pace throughout the forecast period. According to the members of the panel:

- The U.S. recovery will grow at annual rates well over 4 percent in the fourth quarter of 1983 and throughout 1984; and, in their first look at 1985, they expect real economic growth to continue at an average rate of 4 percent annually.

- Inflation will not be a serious problem in 1984; nor will it take off again in 1985, which will mark the third year of expansion in the present business cycle.

- Companies intend to increase substantially their reliance on commercial paper, and they plan to reduce their reliance on long-term financing.

- The U.S. dollar is expected to weaken against most of the major currencies.

The U.S. Economy in 1984

The participating financial executives look for nominal GNP to increase at an annual rate of growth of approximately 10 percent in 1984 and, again, in 1985. The rise in nominal GNP will divide evenly between real growth and price increases in

1984, with both rising at rates of slightly over 5 percent. In line with the further cyclical expansion of the economy, it is expected that the GNP deflator will rise at 6 percent annually, and real GNP will increase by 4 percent in 1985.

No panel member sees inflation as a serious problem in 1984—only two executives see the GNP deflator rising at rates as high as 7–7.5 percent annually; and only seven executives think inflation will rise at rates that range between 7 and 8 percent in 1985.

Relatively little change is expected in both short-term and long-term interest rates throughout the forecast period. Moreover, a "normal" yield curve, with short-term rates remaining below long-term interest rates, is expected for both 1984 and 1985. The Aaa rate is expected to average 11.0 percent in 1984 against a prime rate of 10.7 percent; and to rise to an average of 11.6 percent in 1985, against a prime rate of 11.1 percent. No panel member thinks that the prime rate will average more than 12 percent in 1984; and only two executives are now anticipating a prime rate that will average 13 percent or more in 1985.

The continuation of real growth in the economy at a sustainable pace, along with the absence of serious pressures from rising interest rates, lead to a forecast of a Dow-Jones average that remains in the vicinity of 1300 throughout the next two years. Not a single executive looks for an average of less than 1200 in 1984.

A Changing Financing Pattern

The steep rise in the stock market that continued through the first nine months of 1983 allowed many companies to take further steps to "put

their houses in order" through new equity issues. During the 12-month period from September 1, 1982, through August 31, 1983, net new equity issues averaged 31.2 percent of total external funds, by far the highest percentage of funds since this survey was initiated in 1976. Also, during the past year, the participating companies' internal funds averaged 77 percent of total corporate funds, a figure that is more in line with the 80 percent average that existed during each year of the period 1975 to 1979 (but had fallen as low as 73 percent, as reported in the October, 1982, survey).

New equity issues apparently were made in place of long-term debt issues, which fell from nearly 45 percent of total funds in the October, 1982, survey to 27.2 percent in this survey. The external financing of companies in the survey was also marked by a reduction in their reliance on commercial paper, which fell to 7.1 percent of total external funds.

In the coming 12-month period, however, the external financing pattern is expected to shift substantially from last year's pattern. Eight executives intend to place greater reliance on commercial paper, while twelve plan to reduce their reliance on net bond issues and private placements. The greater reliance on short-term funds planned by the financial executives in The Conference Board survey may be a sign that the

U.S. economy has now reached the phase of the cycle where a stronger building of inventories is about to take place. These financing patterns differ from the pattern that is now expected for corporations as a whole. According to the information from the September 26 issue of *Moody's Bond Survey*, total prospective long-term financing of industrial corporations is roughly \$20.8 billion, more than double the total prospective long-term financing figure of one year ago.

A Weaker Dollar Ahead

The U.S. dollar has continued to remain surprisingly strong against most major currencies. However, most of the financial executives whose companies engage in international operations anticipate that the British pound, the German mark, and the Japanese yen will all strengthen against the dollar over the next two quarters. Their views on the Canadian dollar are mixed, although several more executives see it appreciating than expect it to depreciate against the U.S. dollar.

The majority of panel members anticipate that the dollar price of gold will rise moderately during the forecast period ending March 31, 1984. Most of them, however, do not see a strong rise in the price of gold, since inflation in the United States is expected to remain under control.

Vincent G. Massaro

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of survey)	Outlook			
		Average Dec. '83 (4th Q GNP)	Average March '84 (1st Q GNP)	Average 1984	Average 1985
New Aaa industrial rate (%)	11.6	11.6	11.4	11.0	11.6
Prime rate (%)	10.5	10.8	10.6	10.7	11.1
Dow-Jones Average (Index)	1,214.0	1,234.0	1,276.0	1,287.0	1,314.0
Real GNP (%)	8.7	4.8	4.4	5.0	4.0
GNP deflator (%)	4.5	4.7	5.0	5.2	6.0

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up		Down	
			(percentage points) 5-9.99	(percentage points) 10 or more	(percentage points) 5-9.99	(percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds ¹	77	12	4	8	0	7
External Funds	23	12	0	7	4	8
	100%					
(b) Composition of External Funds						
Net bond issues	24.0	11	0	4	1	8
Private placements	3.2	19	0	2	3	0
Net new equity	31.2	9	3	3	1	8
Bank term loans	17.6	15	1	1	3	4
Bank short-term loans	5.7	20	0	2	1	1
Commercial paper	7.1	13	2	6	1	2
Other	11.2	15	3	1	1	4
	100%					

¹Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1983.

Latest Available C-1/83	Expected Change (Number of Respondents)									
	By Dec. 31, 1983					By March 31, 1984				
	Less than 1% change	Appreciate 1%-5%	Depreciate >5%	Depreciate 1%-5%	Depreciate >5%	Less than 1% change	Appreciate 1%-5%	Depreciate >5%	Depreciate 1%-5%	Depreciate >5%
Canadian dollar \$.8110	25	5	0	2	0	23	7	0	2	0
British pound 1.50	8	22	0	2	0	6	16	7	2	1
German mark .3729	3	27	2	0	0	0	16	15	1	0
Japanese yen .0041	4	25	2	1	0	1	14	14	2	1
Gold \$414.50	12	13	1	3	0	5	14	6	2	2

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